

## Message Text

LIMITED OFFICIAL USE

PAGE 01 ISLAMA 04752 01 OF 02 101436Z POSS DUPE  
ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 AGR-05  
/089 W

-----101711Z 115615 /43

R 101025Z MAY 77  
FM AMEMBASSY ISLAMABAD  
TO SECSTATE WASHDC 1515  
INFO AMCONSUL KARACHI  
AMCONSUL LAHORE

LIMITED OFFICIAL USE SECTION 1 OF 2 ISLAMABAD 4752

E.O. 11652: N/A  
TAGS: EGEN, PK  
SUBJECT: ECONOMIC IMPACT OF THE CRISIS

REFERENCE: ISLAMABAD 3470

SUMMARY: AS THE POLITICAL CRISIS IN PAKISTAN HAS CONTINUED ITS ECONOMIC COST HAS ALSO RISEN. AS OF NOW, WE WOULD ESTIMATE THAT PAKISTAN WILL LOSE ABOUT ONE PERCENT OF GNP, PLUS WHATEVER PROPERTY DAMAGE HAS OCCURRED AS A RESULT OF POLITICAL DISTURBANCES. THE AREAS MOST SERIOUSLY AFFECTED FOR INDUSTRIAL PRODUCTION ARE THE KARACHI AREA AND TRANSPORT BETWEEN KARACHI AND OTHER PARTS OF PAKISTAN. INFLATIONARY PRESSURES WILL ALSO BE INCREASED BY THE CRISS, ALTHOUGH THE MOST IMPORTANT ELEMENT THERE IS THE GOVERNMENT WAGE INCREASE WHICH WOULD HAVE OCCURRED REGARDLESS OF THE POLITICAL CRISIS. IN THE SHORT RUN, THE DROP IN EXPORTS WILL BE MORE OR LESS BALANCED BY A DROP IN IMPORTS, BUT IN THE LONGER RUN THERE MAY BE SOME ADVERSE BALANCE OF PAYMENTS IMPACT AS WELL. END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ISLAMA 04752 01 OF 02 101436Z POSS DUPE

1. IN THE MONTH SINCE OUR PREVIOUS ASSESSMENT OF THE ECONOMIC IMPACT OF THE CRISIS (REFTEL), IT HAS BECOME INCREASINGLY CLEAR THAT WHEREAS KARACHI HAS SUFFERED CONSIDERABLE ECONOMIC DAMAGE FROM THE POLITICAL CRISIS, THE IMPACT IN THE REST OF THE COUNTRY IS MUCH LESS SEVERE.

2. PRODUCTION LOSSES: CONGEN KARACHI ESTIMATES THAT EXCLUDING SUNDAYS, INDUSTRIAL UNITS WERE FULLY CLOSED IN APRIL FOR FIVE DAYS. IN ADDITION, THEY WERE SERIOUSLY AFFECTED FOR TEN DAYS AND AT LEAST PARTIALLY AFFECTED ON THE REMAINING ELEVEN DAYS. IN GENERAL, KARACHI ESTIMATES THAT MUCH OF LOCAL INDUSTRY HAD BEEN OPERATING WELL BELOW CAPACITY BEFORE THE ELECTIONS, AND THAT APRIL INDUSTRIAL PRODUCTION IN THE KARACHI AREA WAS PERHAPS 30 TO 40 PERCENT OF THE PRE-ELECTION LEVEL. KARACHI ESTIMATES THAT SINCE JANUARY PAKISTAN'S INDUSTRY IN THE KARACHI AREA HAS LOST THE EQUIVALENT OF ONE MONTH'S VALUE OF PRODUCTION. IN LAHORE AND IN THE PUNJAB, BY CONTRAST, INDUSTRIAL PLANTS WERE FULLY CLOSED DOWN FOR ONLY 2 OR THREE WORK DAYS. LAHORE ESTIMATES THAT THE TEXTILE INDUSTRY IN LYALLPUR, AN IMPORTANT INDUSTRIAL CENTER, WAS PROBABLY AFFECTED MORE SERIOUSLY THAN OTHER INDUSTRIAL AREAS IN THE PUNJAB. THE RAPID RETURN TO A NORMAL WORK SITUATION IN LYALLPUR HAS PROBABLY PERMITTED MOST OF THESE LOSSES TO BE MADE UP. CURFEWS AND STRIKES IN KARACHI HAVE ALSO CAUSED CONSIDERABLE DELAY IN CONSTRUCTION ACTIVITIES, INDUSTRY, NEW HOTELS AND CERTAIN DEVELOPMENT PROJECTS.

3. TRANSPORTATION: KARACHI PORT WAS FULLY CLOSED FOR 5 DAYS DURING APRIL, AND WORKER ATTENDANCE WAS SIGNIFICANTLY BELOW NORMAL ON ANOTHER 3 DAYS, ACCORDING TO CONGEN KARACHI. THE NUMBER OF SHIPS OFF PORT WAS 42-47 DURING MONTH OF APRIL, COMPARED TO A NORMAL LEVEL OF ABOUT 37. MORE SERIOUS HAS BEEN THE DISRUPTION IN TRUCK AND RAIL TRANSPORTATION BETWEEN KARACHI AND THE REST OF THE COUNTRY. CONGEN KARACHI REPORTS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ISLAMA 04752 01 OF 02 101436Z POSS DUPE

THAT TRUCK TRANSPORTATION UP-COUNTRY WAS ALMOST NON-EXISTENT THROUGHOUT APRIL--OUR OBSERVATIONS IN ISLAMABAD CORROBORATE THIS--AND CONGEN LAHORE REPORTS THAT THE TRUCKS WHICH DID TRAVEL WERE CHARGING DOUBLE RATES FOR THEIR SERVICES. IN ADDITION, RAILWAY FREIGHT OPERATIONS BETWEEN KARACHI AND THE REST OF THE COUNTRY WERE WELL BELOW NORMAL (KARACHI ESTIMATES 75PERCENT OF NORMAL). PIA WAS ON STRIKE AND

THE PNA CALL TO WITHDRAW MONEY FROM THE NATIONALIZED BANKS SEEMS TO HAVE HAD RELATIVELY LITTLE IMPACT. BOTH KARACHI AND LAHORE REPORT RELATIVELY LOW LEVELS OF WITHDRAWALS FROM THE BANKS (IN THE NEIGHBORHOOD OF RS. 200 TO RS. 250 MILLION), OR LESS THAN 1 PERCENT OF COUNTRYWIDE BANK DEPOSITS. KARACHI REPORTS THAT NEW BANK DEPOSITS WERE VERY LOW IN APRIL; WE THINK THIS IS PROBABLY A NORMAL REACTION TO THE UNSETTLED CONDITIONS AND EXTENDED CURFEWS IN KARACHI AT THAT TIME.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 ISLAMA 04752 02 OF 02 101507Z POSS DUPE  
ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 AGR-05  
/089 W

-----101711Z 116138 /43

R 101025Z MAY 77  
FM AMEMBASSY ISLAMABAD  
TO SECSTATE WASHDC 1516  
INFO AMCONSUL KARACHI  
AMCONSUL LAHORE

LIMITED OFFICIAL USE SECTION 2 OF 2 ISLAMABAD 4752

5. SHORTAGE S AND PRICE MOVEMENTS: BECAUSE OF THE DISRUPTION IN THE PORT AND IN TRANSPORTATION TO AND FROM KARACHI, SOME SHORTAGES DID DEVELOP UP-COUNTRY IN ITEMS WHICH WOULD NORMALLY BE SUPPLIED FROM KARACHI, BUT WITH FEW EXCEPTIONS, OUR IMPRESSION IS THAT THESE HAVE NOT BEEN VERY SERIOUS. THE MOST OBVIOUS SHORTAGE HAS BEEN TEA, BUT THE REASON FOR THIS HAS MORE TO DO WITH PRICE CONTROLS THAN WITH THE POLITICAL CRISIS. THE CITIES UNDER CURFEW HAVE ALSO EXPERIENCED SHORTAGES AND PRICE INCREASES FOR KEY COMMODITIES, PARTICULARLY PERISHABLE FOOD STUFFS, BUT IN BOTH KARACHI AND LAHORE THE MARTIAL LAW AUTHORITIES HAVE CRACKED DOWN VIGOROUSLY ON TRADERS WHO ATTEMPTED TO TAKE ADVANTAGE OF THIS SITUATION. OUR IMPRESSION IS THAT FOOD SUPPLIES PV BOTH PLACES HAVE RETURNED MORE OR LESS TO NORMAL.

6. THE LONGER-TERM PRICE EFFECTS OF THE POLITICAL CRISIS MAY BE MORE SERIOUS. THE PRODUCTION LOSSES ARE BOUND TO ADD TO INFLATIONARY PRESSURES. THESE PRESSURES WILL UNFORTUNATELY BE SUPPORTED BY THE SUBSTANTIAL PAY RAISES  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ISLAMA 04752 02 OF 02 101507Z POSS DUPE

GRANTED TO GOVERNMENT EMPLOYEES AND EMPLOYEES OF THE NATIONALIZED INSURANCE COMPANIES, AND THEN EXACERBATED BY THE PRIVATE SECTOR PAY INCREASES WHICH WE ASSUME WILL FOLLOW SUIT. WE BELIEVE THAT IT WILL BE SOME MONTHS BEFORE THE IMPACT ON THE COST OF LIVING STARTS TO BE NOTICEABLE, HOWEVER.

7. INEVITABLY, THE UNSETTLED CONDITIONS WHICH HAVE PREVAILED FOR THE LAST TWO MONTHS WILL TEND TO DISCOURAGE BOTH DOMESTIC AND FOREIGN INVESTMENT. ESPECIALLY IN THE LATTER CASE, THE CLIMATE WAS ALREADY DEPRESSED, HOWEVER, SO IT IS HARD TO QUANTIFY THE COST INVOLVED HERE. WE ALSO UNDERSTAND THAT TOURISM AND OCCUPANCY IN HOTELS HAS BEEN WELL BELOW NORMAL LEVELS.

8. BALANCE OF PAYMENTS: WE ASSUME THAT BOTH IMPORTS AND EXPORTS WILL BE LOWER AS A RESULT OF THE DISUPTION OF PORT ACTIVITIES, ALTHOUGH THE WAY GOP FOREIGN TRADE STATICS ARE COLLECTED MEANS THAT IT WILL BE SOME MONTHS BEFORE WE CAN VERIFY THIS. IN THE MEDIUM TERM, WE SUSPECT THAT THE EFFECTS ON EXPORTS WILL BE MORE PERMANENT THAN THOSE ON IMPORTS, IN THAT MOST IMPORTS ARE PROBABLY ONLY BEING POSTPONED, WHEREAS SOME EXPORT BUSINESS, PARTICULARLY IN THE NON-TRADITIONAL REAS, MAY WELL HAVE BEEN LOST. IT IS HARD TO PUT A FIGURE ON THIS, BUT BASED ON THE NORMAL MONTHLY LEVELS OF NON-TRADITIONAL EXPORTS WE BELIEVE THAT \$20 MILLION WOULD NOT BE AN UNREASONABLE ESTIMATE. WE HAVE NO RELIABLE INFORMATION ON WHAT, IF ANYTHING, HAS HAPPENED TO REMITTANCES FROM OVERSEAS PAKISTANIS DURING THIS PERIOD. UNFORTUNATELY, THE \$300 MILLION IRANIAN GUARANTEED COMMERCIAL LOAN WHICH THE GOP HAD BEEN COUNTING ON TO MEET ITS FY 77 REQUIREMENTS WILL NOW ALMOST CERTAINLY BE DELAYED BEYOND THE END OF THE FISCAL YEAR, SO THAT THE PAKISTAN BALANCE OF PAYMENTS IS UNDER MORE SERIOUS PRESSURE THAN IT OTHERWISE WOULD HAVE BEEN. IF ONE ASSUMES THAT THE DROP IN IMPORTS WILL MORE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ISLAMA 04752 02 OF 02 101507Z POSS DUPE

OR LESS MATCH THE DROP IN EXPORTS, THE ABSENCE OF THE IRANIAN GUARANTEE LOAN WOULD MEAN THAT PAKISTAN IS LIKELY TO END THE FISCAL YEAR WITH LOSSES OF ABOUT \$300

MILLION, EQUIVALENT TO ONLY 6 WEEKS IMPORTS.  
CONSTABLE

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, POLITICAL STABILITY, ECONOMIC TRENDS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 10-May-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977ISLAMA04752  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770164-0911  
**Format:** TEL  
**From:** ISLAMABAD  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770575/aaaacmxd.tel  
**Line Count:** 219  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 2453c397-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION NEA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 ISLAMABAD 3470  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 15-Mar-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2586564  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC IMPACT OF THE CRISIS  
**TAGS:** EGEN, PINS, PK  
**To:** STATE  
**Type:** TE  
**vdkgvkey:** odbc://SAS/SAS.dbo.SAS\_Docs/2453c397-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009